



United States Attorney's Office District of Connecticut Press Release

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CONNECTICUT HEDGE FUND ADVISER ADMITS RUNNING MASSIVE PONZI SCHEME

Two others charged in conspiracy, Hundreds of millions of dollars potentially lost

David B. Fein, United States Attorney for the District of Connecticut, and Kimberly K. Mertz, Special Agent in Charge of the New Haven Division of the Federal Bureau of Investigation, today announced that three men have been charged with various offenses stemming from a scheme to defraud investors and creditors of Fairfield County hedge funds managed by one of the defendants, **FRANCISCO ILLARRAMENDI**, 42, of New Canaan, Conn. As a result of the scheme, the investors and creditors of ILLARRAMENDI's funds face potential losses of hundreds of millions of dollars.

Today, ILLARRAMENDI waived his right to indictment and pleaded guilty before United States District Judge Stefan R. Underhill in Bridgeport, Connecticut, to two counts of wire fraud, one count of securities fraud, one count of investment advisor fraud, and one count of conspiracy to obstruct justice, to obstruct an official proceeding and to defraud the U.S. Securities and Exchange Commission ("SEC").

On Thursday, March 3, special agents from the New Haven and Miami Divisions of the FBI arrested **JUAN CARLOS GUILLEN ZERPA**, 43, and **JUAN CARLOS HORNA NAPOLITANO**, 40, in Florida on federal criminal complaints charging each with engaging in a conspiracy to obstruct justice, to obstruct an official proceeding and to defraud the SEC. GUILLEN is an accountant and a citizen of Venezuela, and HORNA is a Venezuelan citizen living in Pembroke Pines, Florida.

According to court documents and statements made in court, ILLARRAMENDI acted as an investment adviser to certain hedge funds. In approximately 2006, one hedge fund he advised lost millions of dollars of the money he was charged with investing. Rather than disclose to his investors the truth about the losses incurred, ILLARRAMENDI intentionally chose to conceal this information by engaging in a scheme to defraud and mislead his investors and creditors to prevent the truth about the losses from being discovered. As a result of this scheme, the hedge funds and related entities managed and advised by ILLARRAMENDI currently have outstanding liabilities that greatly exceed the true value of their assets.

"This investigation has revealed that Francisco Illarramendi operated a massive Ponzi scheme that has defrauded foreign investors of hundreds of millions of dollars," stated U.S. Attorney Fein. "While the precise dollar losses will not be known for some time, based on this fast-moving investigation, we believe this case represents the largest white-collar prosecution ever brought by this office. I want to commend the FBI and the SEC for their forceful pursuit of this fraud, and for their partnership in the Connecticut Securities, Commodities and Investor Fraud Task Force, which is actively investigating this and other financial fraud schemes."

"This investigation should serve as fair warning to those, whether in Connecticut, elsewhere in the United States, or overseas, who would attempt to victimize an increasing number of American and foreign investors," stated FBI Special Agent in Charge Mertz. "The

Connecticut Securities, Commodities, and Investor Fraud Task Force will continue to aggressively investigate these criminals and protect the rights of the investing public.”

From approximately 2006 to February 2011, ILLARRAMENDI engaged in a scheme to defraud his investors, creditors and the SEC by creating fraudulent documents, including a bogus debt instrument and a phony letter purporting to have been issued by an investment bank, as well as a fictitious asset verification letter falsely representing that one of the hedge funds, the Short Term Liquidity Fund (“STLF”), had at least \$275 million in credits as a result of outstanding loans, when ILLARRAMENDI and others knew it did not have any such credits. In addition, ILLARRAMENDI misled investors, creditors and the SEC about the true performance of the funds, the assets under management by the funds and the transactions being conducted by the funds and related entities.

In pleading guilty, ILLARRAMENDI admitted that he used money provided by new investors to the funds to pay out the returns he promised to earlier investors, created fraudulent and misleading documents related to the funds’ assets, made false representations to his investors and creditors in an effort to obtain new investments from them and to prevent them from seeking to liquidate their investments, improperly commingled the investments in each individual hedge fund with investments in the other hedge funds, and engaged in transactions that were not in the best interests of the funds and agreed to pay kickbacks to persons connected with those transactions.

For example, on one occasion in approximately 2008, ILLARRAMENDI created a fraudulent letter that purported to be a representation by an investment bank that assets of the funds and related entities were segregated from one another at the investment bank. ILLARRAMENDI created the letter by using the letterhead of the investment bank. Today, ILLARRAMENDI admitted that this document, which he sent from Connecticut to numerous foreign investors, was false. Also in 2008, ILLARRAMENDI sent an email to a creditor attaching a bogus debt instrument, which purported to be a Credit Linked Note issued by the same investment bank with a face value of \$30 million. This document, too, was fabricated by ILLARRAMENDI.

In addition, in 2010, ILLARRAMENDI used approximately \$53 million from two funds he managed and controlled by transferring the money to entities affiliated with the *Michael Kenwood Group, LLC* (“MK Group”), an entity that he also controlled, without disclosing the use of this money to all of the investors. Thereafter, in an effort to generate a sufficient return to fill the hole in the funds’ assets, ILLARRAMENDI used the approximately \$53 million to invest in private equity companies. The investments were made in the name of entities affiliated with the MK Group, and not in the name of the funds.

Beginning in 2010, the SEC sought information and documentation from ILLARRAMENDI and the MK Group. As part of its enforcement authority, the SEC served a subpoena for records upon, among others, MK Group. In December 2010 and January 2011, the SEC conducted an enforcement-directed review of MK Group and related entities as part of its official enforcement investigation. On January 14, 2011, the SEC filed a civil action (*SEC v. Illarramendi, et al.*, 3:11-CV-00078), seeking, among other things, to enjoin ILLARRAMENDI and entities related to MK Group from violating the federal securities laws and to submit an accounting of investor funds. Subsequent to the filing of the SEC civil action, U.S. District Judge Janet Bond Arterton appointed, and sought input from, business advisers and a receiver to ascertain the assets and liabilities of the hedge funds affiliated with MK Group, among other tasks.

In connection with the SEC investigation, ILLARRAMENDI, GUILLEN and HORNA allegedly conspired to obstruct the SEC and the filed court action. As set forth in court

documents, with the assistance of GUILLEN and HORNA, ILLARRAMENDI gave the SEC a fictitious asset verification letter. That document represented that STLF had at least \$275 million in credits as a result of outstanding loans to various companies. ILLARRAMENDI has admitted that this representation was false: STLF had not made those loans and was not owed that money. ILLARRAMENDI has admitted that he agreed to pay GUILLEN and HORNA more than \$3 million for fabricating the letter and creating false support for the \$275 million in loans. It is alleged that on January 24, 2011, \$1 million was wired from a Swiss bank account to an account allegedly associated with HORNA. Court documents reveal consensual recorded telephone calls and other communications in which GUILLEN and HORNA allegedly agree to create documentation so that the companies that purportedly owe the money would support the story if contacted by the SEC. Further, it is alleged that, in January 2010, GUILLEN personally spoke to the SEC, told them that he had been asked to verify the existence of the loan portfolio, and reported that he had spoken to all of the companies and had begun receiving confirmation from them. In pleading guilty, ILLARRAMENDI admitted that he and others conspired to obstruct the SEC investigation and civil court proceedings by creating and fraudulently attempting to substantiate a list of fictitious assets.

When he is sentenced, ILLARRAMENDI faces a maximum term of imprisonment of 70 years, fines, restitution for the full amount of the losses suffered by investors and creditors, and forfeiture of assets. A sentencing date has not been scheduled.

GUILLEN and HORNA are each charged with one count of conspiracy and one count of obstruction of an official proceeding. They are both detained. If convicted of the charges in the criminal complaint, GUILLEN and HORNA each faces a maximum term of imprisonment of 25 years.

U.S. Attorney Fein stressed that a complaint is only a charge and is not evidence of guilt. Charges are only allegations, and each defendant is presumed innocent unless and until proven guilty beyond a reasonable doubt.

This matter is being investigated by the Federal Bureau of Investigation with the assistance of the U.S. Securities and Exchange Commission, Boston Regional Office.

This case is being prosecuted by Senior Litigation Counsel Richard J. Schechter and Assistant U.S. Attorney Paul A. Murphy.

U.S. Attorney Fein also acknowledged the substantial assistance provided by the U.S. Attorney's Office for the Southern District of Florida.

In December 2010, the U.S. Attorney's Office and several law enforcement and regulatory partners announced the formation of the Connecticut Securities, Commodities and Investor Fraud Task Force, which is investigating matters relating to insider trading, market manipulation, Ponzi schemes, investor fraud, financial statement fraud, violations of the Foreign Corrupt Practices Act, and embezzlement. The Task Force includes representatives from the U.S. Attorney's Office; Federal Bureau of Investigation; Internal Revenue Service – Criminal Investigation; U.S. Secret Service; U.S. Postal Inspection Service; U.S. Department of Justice's Criminal Division, Fraud Section and Antitrust Division; U.S. Securities and Exchange Commission (SEC); U.S. Commodity Futures Trading Commission (CFTC); Office of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP); Office of the Chief State's Attorney; State of Connecticut Department of Banking; Greenwich Police Department and Stamford Police Department.

Citizens are encouraged to report any financial fraud schemes by calling the FBI toll free, 855-236-9740, or by sending an email to ctsecuritiesfraud@ic.fbi.gov.

This case was brought in coordination with the President's Financial Fraud Enforcement Task Force, which was established to wage an aggressive and coordinated effort to investigate and prosecute financial crimes. The task force includes representatives from a broad range of federal agencies, regulatory authorities, inspectors general, and state and local law enforcement who, working together, bring to bear a powerful array of criminal and civil enforcement resources. The task force is working to improve efforts across the federal executive branch, and with state and local partners, to investigate and prosecute significant financial crimes, ensure just and effective punishment for those who perpetrate financial crimes, combat discrimination in the lending and financial markets, and recover proceeds for victims of financial crimes.

For more information on the task force, please visit <http://www.stopfraud.gov/>.

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